

Islamic Financing as an Effective Mechanism to Achieve Sustainable Development

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الملخص:

يواجه العالم تحديات كبيرة نتيجة التطورات التكنولوجية والمتطلبات الاجتماعية والاقتصادية المتزايدة، مما أدى إلى تغييرات بيئية رئيسية. وقد أدى ذلك إلى ضرورة قيام الدول والمجتمعات بتغيير سلوكها واعتماد التمويل الإسلامي لتحقيق التنمية المستدامة.

الكلمات المفتاحية:

التحديات، التطورات، السلوك، التمويل الإسلامي، التنمية المستدامة ..

Abstract :

- The world is facing significant challenges due to technological developments and growing social and economic demands, resulting in major environmental changes. This has led to the necessity for states and societies to alter their behaviors and adopt Islamic financing to achieve sustainable development.

Keywords:

Challenges, Developments, Behavior, Islamic Financing, Sustainable Development

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1. INTRODUCTION

The economic, social, and technological developments, coupled with random practices and climate changes caused by pollution, have brought negative impacts on human health and the environment reflected in the spread of diseases and deterioration of biodiversity. This growing awareness of the environment and the need to change societies and nations to achieve better development goals are leading to what is being termed as sustainable development.

Unlike other forms of financing, Islamic financing is a successful and effective method that contributes to comprehensive economic, social, and cultural development. It also serves as a solution for achieving the main dimensions of sustainable development.

Problem Statement:

The main question that this research attempts to answer is: What is the importance of Islamic financing in achieving sustainable development in Algeria?

Research Objectives:

1. To highlight the significant role of Islamic financing in achieving sustainable development.
2. Modern approaches to achieve sustainable development.
3. The importance and characteristics of activating sustainable development in the Arab world.

Research Methodology:

The research uses a descriptive methodology to explain the concepts of Islamic financing and its relationship with sustainable development, besides using an analytical approach to interpret and analyze the results.

2- Islamic Financing as an Effective Mechanism for Achieving Sustainable Development

2-1 Concept of Financing and Its Importance:

A. Concept of Financing:

Financing can be defined as the provision of required financial amounts for the development of a private or public project. It is the art of providing funds

when needed. Islamic financing can be defined as the provision of material or monetary wealth by the owner to another person to manage and utilize it according to Islamic law, in return for which the owner receives a return. This can be summarized below:

- . Financing is concerned with monetary amounts, not goods or services.
- . Financing must match the required amount, neither more nor less.
- . The main objective of financing is to develop private or public projects.
- . Financing must be provided at the right time, meaning when the need arises.

B. The Importance of Financing:

Every country has an economic and developmental policy aimed at achieving the welfare of its citizens. This policy requires detailed planning for developmental projects according to the country's financial needs and capabilities. Regardless of the diversity of projects, all require financing to grow and sustain operations. Islamic financing is considered the lifeblood of these projects, playing a vital role in achieving the nation's development policies and ensuring economic security through:

- . Providing the funds needed for the implementation of different projects; this creates new jobs and advances the economy.
- . The goals set by the state are achieved.
- . Improvement in the living standards of the people is achieved by providing shelter, jobs, and an overall good life.
- . Using Islamic financing and its mechanisms to achieve welfare and economic security.

3-Principles of Islamic Financing

Islamic financing has significant differences from conventional financing. The basis of Islamic financing rests on a number of principles that are in accordance with Islamic Sharia. These include:

.Relation to Islamic Doctrine: The Islamic law allows for all the economic activities that ensure interest of the public and their protection. It gives the rulers powers to supervise and take measures that ensure the achievement of the Islamic values and principles.

.Realism: The Islamic legislation meets the real needs of life; hence, it is interested in interests and objectives. For that reason, Islam only prohibits

the transactions of injustice, such as usury, monopolies, and fraud, and permits the transaction that embodies fairness.

.Prohibition of Hoarding: Hoarding of wealth, freezing of assets, and refusal of their investment in productive activities is not permitted in Islam. Rather, Islam allows the flow of wealth in the interest of the community rather than storing it up for selfish desires.

. Prohibition of Usury: Usury separates debt from economic activity such as trade or production. Interest on loans grows over time regardless of whether the money was used in productive activities. This leads to a rise in debt without corresponding economic growth, making it unsustainable.

. Principle of Risk Sharing (Al-Ghunm Bil-Ghurm):

This principle emphasizes "everyone shall bear a share of responsibilities, too, and losses according with benefit and rights." In partnership risk rewards are shared by both parties equally on terms determined between the two

. Ethical Devotion in Investment Activities: Islamic finance is bound to conduct its business according to the dictates of Islamic Shariah in every dealing. Islamic banks reject investment projects which are forbidden by Islam. Examples of projects Ethical Devotion in Investment Activities: Islamic finance is bound to conduct its business according to the dictates of Islamic Shariah in every dealing. Islamic banks reject investment projects which are forbidden by Islam. Examples of projects that violate Islamic values and hence not allowed are those entailing Gharar, or fraud.

.Relation with the real economy: Islamic financing is closely linked to real economic activities and projects, based on their feasibility and profitability. It focuses on productive activities, rather than the purely financial and speculative nature of conventional financing.

4- Various Forms of Islamic Financing

Islamic financing offers a variety of mechanisms that are commonly adopted by Islamic banks and financial institutions:

. Diminishing Musharakah (Diminishing Partnership): Islamic banks contribute to the ownership of a company, real estate, or business with a portion of the capital. Profits or losses are shared in accordance with an agreement between both parties, as the bank gradually sells its share to the

partners until full ownership is transferred to them.

.Murabaha (Cost-Plus Financing):

In a Murabaha, the bank buys a commodity and sells it to the customer with a markup price, adding a profit margin. The customer agrees to the price and pays in installments. This type of financing is used very often when buying equipment, real estate, or inventory.

. **Salam (Forward Sale):** Islamic banks use Salam financing to inject liquidity into small and medium enterprises through the payment for goods that will be delivered in the future. This method enables businesses to continue with their production without any interruptions.

. **Mudarabah (Profit Sharing):** The two parties are Mudaraba, who may be regarded as an investment, and another, referred to as Mudarib-the entrepreneur. One party provides the capital as a loan and the entrepreneur makes the desired business; both shall share the net profit received by means of a profit-sharing agreement; losses would be paid for completely by the provider.

. **Ijarah :** Ijarah is a leasing arrangement whereby the bank buys an asset, say machinery, and leases it to the customer for a fixed period. At the end of the lease, the customer may purchase the asset for a nominal fee, effectively transferring ownership.

. **Istisna (Manufacturing Contract):** Istisna is a contract where the bank commissions the manufacturer to produce a specific product according to agreed-upon terms. It can be used for financing construction projects or manufacturing equipment.

5- The Role of Islamic Financing in Achieving Sustainable Development

Islamic finance has become a pioneering and successful model both internationally and within the Islamic world, with significant achievements in the fields of banking, economic, and social development. It contributes to sustainable development through the following dimensions:

a. Social Dimension:

Islamic finance supports various social activities while considering the social aspects of financing and wealth management.

b. Environmental Dimension:

Islamic finance plays a role in safeguarding financial resources from being

wasted in unproductive uses and promotes the protection of the environment through financing mechanisms such as agriculture and water resource management.

c. Economic Dimension:

Islamic finance contributes to solving many economic problems by providing realistic methods to overcome the obstacles in a manner conducive to stable and sustainable development.

Islamic finance can contribute to achieving stable growth rates in sustainable development by supporting and maintaining financial stability within Islamic societies.

In today's global financial crises, Islamic banks are encouraged to introduce new products to the market that address the needs of the population in a Sharia-compliant manner.

Additionally, governments should promote the expansion of Islamic finance and enact laws that encourage its adoption.

6- Experiences of Islamic Banks in Achieving Aspects of Sustainable Development

A number of Gulf and other countries have been able to exploit Islamic banking tools and mechanisms in mobilizing and investing huge financial resources for the development of infrastructure, which is an important factor for achieving economic and social development in the long term.

For instance, Islamic banks have collectively or singly financed large-scale energy projects like the hydroelectric and water plants in Sharjah, Abu Dhabi-Shuweihat Station, and Bahrain-Al-Hidd Station. They also participated in establishing Hamad Medical City in Bahrain and provided finances for modern telecommunications networks like Etisalat, Mobily, and Zain. Furthermore, Islamic banks participated in the development of Dubai International Airport and in expanding Emirates Cooling Services. This is further exercised by financing facilities in Pakistan at Karachi Port to reduce congestion while funding the construction sector to house and develop the tourism sector within Dubai, Qatar, and Bahrain.

In Sudan, the interest-free Islamic banking system has played a major role in the country's development. The Sudanese Development Corporation has funded various sectors such as industry, services, agriculture, and

commerce. In Jordan, Jordan Islamic Bank has been a key player in development by offering different products and services such as interest-free loans, donations, artisans' financing, mutual insurance programs, and social services.

In Malaysia, Islamic banks have pledged to contribute to development through their various social responsibility programs. For instance, they have assisted the poor, needy, and sick with financial assistance via the Zakat Fund to complete their education. In 2007 alone, more than 1 million Malaysian Ringgit of Zakat funds were disbursed to needy families, orphans, educational institutions, charitable organizations, healthcare services, and for the construction of mosques and religious schools.

7-Conclusion

Our study proves that Islamic finance significantly contributes to sustainable development because it is based on solid, ethical principles of fairness, transparency, and mutual benefit. Islamic finance creates an ethical economic environment that guarantees stability and environmental protection. By adhering to these values, Islamic finance ensures the creation of a sustainable economic environment in which the needs of both present and future generations are satisfied.

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